

The State Lease-Purchase (COP) Program

Real Estate and Equipment Financing
for State Agencies



Office of the State Treasurer

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NEW ISSUE, BOOK-ENTRY ONLY

Moody's Rating: Aa2
(See "OTHER CERTIFICATE INFORMATION—Ratings")

\$53,400,000

STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2019A
(STATE AND LOCAL AGENCY REAL AND PERSONAL PROPERTY)

Dated: Date of Initial Delivery

Due: See page i hereof

The State of Washington Certificates of Participation, Series 2019A (State and Local Agency Real and Personal Property) (the "Certificates"), are being executed and delivered by the Trustee pursuant to a Trust Agreement among the Trustee, the State of Washington (the "State"), and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates evidence and represent undivided proportionate interests in payments to be made by the State under Master Financing Agreements between the Corporation and the State (the "State Payments").

The interest represented by the Certificates is payable semiannually on each January 1 and July 1, beginning July 1, 2019. The principal represented by the Certificates is payable in the stated maturity amounts on July 1, 2019, and on each January 1 beginning January 1, 2020, as shown on page i.

The Certificates are subject to optional prepayment prior to their Principal Payment Dates. The Certificates are subject to extraordinary mandatory prepayment upon the occurrence of certain events. See "DESCRIPTION OF THE CERTIFICATES—Prepayment."

The Certificates are issuable in fully registered form under a book-entry only system, initially registered in the name of Cede & Co. (the "Owner"), as owner and nominee for The Depository Trust Company ("DTC"), New York, New York, which will serve as securities depository for the Certificates. The Certificates will be issued in denominations of \$5,000 each and any integral multiple thereof within a single maturity. Principal and interest represented by the Certificates are payable to DTC by the Trustee (currently U.S. Bank National Association), for subsequent disbursement by DTC to Beneficial Owners of the Certificates, as described under "DESCRIPTION OF THE CERTIFICATES—Book-Entry System."

The Certificates are being executed and delivered to finance and/or refinance the costs of acquisition, construction, and/or remodeling of certain real and personal property for the benefit of certain State Agencies and Local Agencies (together, the "Agencies") and to pay issuance costs with respect to the Certificates.

State Payments are made from payments made pursuant to the Agency Financing Agreements between the State and the applicable Agency ("Agency Payments"). The Master Financing Agreements and the State Agency Agreements constitute limited obligations of the State payable solely from the sources and subject to the limitations therein and do not constitute a debt or a general obligation of the State or a pledge of the full faith and credit or taxing power of the State. The obligation of any State Agency to make its Agency Payments and the obligation of the State to make State Payments are subject to appropriation by the Legislature and to Executive Order emergency reduction by the Governor. A determination by the Legislature not to appropriate or any Executive Order reduction would not constitute an Event of Default under the Trust Agreement, the Master Financing Agreements, or any State Agency Financing Agreement. The obligation of each Local Agency to make its Agency Payments is a general obligation of that Local Agency secured by a pledge of its full faith and credit.

In the opinion of Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied after the issue date of the Certificates, interest represented by the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. Interest represented by the Certificates received by certain S corporations may be subject to tax, and interest represented by the Certificates received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest represented by the Certificates may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

The Certificates are offered when, as and if executed and delivered, subject to the receipt of the approving opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel to the State, and certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the State by Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, as Disclosure Counsel to the State.

It is anticipated that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Trustee on behalf of DTC by Fast Automated Securities Transfer on or about February 13, 2019.



What is the State Lease/Purchase Program?

- A cost-effective way for Washington State agencies to finance:
 - Equipment purchases such as vehicles, computers, and HVAC systems
 - Real estate projects, including property acquisition and construction of new facilities



Helen Summers Building – Washington State Campus, Olympia WA
Photo source: PSFMechanical



Washington State Patrol Vehicle
Photo source: WSP



Lease/Purchase Structure – Certificates of Participation

- The Agency enters into a financing contract (lease) with the Office of the State Treasurer (OST) via a Trustee (Washington Finance Officers Association – WFOA)
- OST pools the various lease agreements across all agencies, and packages them as a security called a Certificate of Participation (COP)
 - COP's are similar to municipal bonds in that they are structured with regular principal and interest payments and sold to investors
 - Investors that purchase the COP are guaranteed an income stream from the lease payments to be made by the agencies for the life of the loan
- After the individual lease expires, ownership of the financed piece of property is retained by the agency



State Lease/Purchase Program Details

- For real estate financing leases, agencies are required to obtain legislative authorization in the capital budget
- For equipment financing contracts, agencies must have operating revenues sufficient to make lease payments
- Minimum borrowing threshold of \$10,000 for each lease
- The length of each financing contract is based upon the useful life of the asset:
 - For real estate transactions, the maximum term is 25-years
 - For equipment, the maximum term is determined by the Office of Financial Management useful life schedule:

<https://www.ofm.wa.gov/sites/default/files/public/legacy/policy/30.50.htm>



State Lease/Purchase Program Details Cont.

- Property financed on a tax-exempt basis is subject to IRS tax law restrictions regarding private business use
 - Private business use may arise from leases, management contracts, research agreements and other contracts with the federal government, corporations, and other private or non-profit entities agreement
 - A taxable sale can be done when there is expected private use, which carries a higher interest rate
- Funds are generally available three times per year, in February, June and October
 - Some large leases may qualify for a special issuance that could fall outside the regular schedule
 - A state agency may also choose to participate in multiple issuances for one project if needed



Benefits – Low Interest Rates

- The State Lease/Purchase Program allows participants access to the national tax-exempt market through a competitive bid process, regardless of the size of their financing contract
- By pooling multiple agency leases, participants are able to take advantage of the State's strong Aa2 credit rating to secure very low tax-exempt interest rates
 - See Appendix B for most recent rating report

STATE

Actual Interest Rates for Most Recent Sale

as of: 6/4/2019

<i>Term</i>	<i>Equipment*</i>	<i>Real Estate*</i>
3 Years	1.52%	1.48%
4 Years	1.55%	--
5 Years	1.57%	--
6 Years	1.59%	--
7 Years	1.61%	--
10 Years	--	1.68%
12 Years	1.98%	--
20 Years	--	2.80%
25 Years	--	3.17%

**Interest rates shown above include all financing costs. Past interest rates do not predict future interest rates. Actual interest rates are determined by the competitive bids received on the date of sale.*



Benefits – Administration

- The State Lease/Purchase Program is user friendly, as OST manages all technical aspects of the program, including:
 - Issuance
 - General administration
 - IRS tax law compliance
 - Continuing disclosure
- To reduce costs and increase efficiency, the program uses standardized documents and a set repayment schedule
 - Lease payments are due on June 1 and December 1
- After providing necessary materials, participating agencies can be reimbursed as soon as funds are available



Timeline

Preliminary State Lease/Purchase Program Timeline

Funds Available In	Real Estate NOI Cut-Off	Equip NOI and All Document Cut-Off	Real Estate Document Cut-Off	Sale Date	Funds Available	First Payment Due
October '19	July 12, 2019	July 26, 2019	August 23, 2019	September 24, 2019	October 15, 2019	December 1, 2019
February '20 *	Late October 2019	Mid-November 2019	Early January 2020	February, 2020	February, 2020	June 1, 2020
June '20*	Mid-March, 2020	Early April, 2020	Late April, 2020	June, 2020	June, 2020	December 1, 2020

**All dates are tentative and subject to change; dates for future sales will be established after the current sale is completed*

- OST plans to go market three times in 2019, with funds expected to be available in February, June and October
 - OST has the ability to issue additional series if the need arises
- Funds are available approximately two weeks after the sale date
- Note for Real Estate projects, a Construction Contract or Purchase and Sale Agreement must be in place a few weeks prior to the sale date



Lease/Purchase Process

1. Legislative
Authorization (*for Real
Estate Leases Only*)

2. Notice of Intent

3. Financing
Documents

4. Reimbursement



Application Process

1. Legislative Authorization

- Financing contracts for **real estate** projects must be authorized by the Legislature, typically in the capital budget
- For **equipment** purchases, it is expected the agency has sufficient current revenue to meet the payment obligations
 - If current revenues does are not sufficient, the Agency may require legislative approval if necessary



Application Process

2. Notice of Intent

- The Notice of Intent (NOI) is a standardized, non-binding agreement that notifies OST of the agency's intent to finance real estate or equipment through the COP Program
- Reimbursements can only be provided for purchases made no earlier than 60 days prior to submittal of the NOI
 - Some preliminary fees for real estate projects (such as design) can be reimbursed outside of 60-day window



Application Process

3. Financing Documents

- For **equipment** financing contracts, a signed, original, single sided copy of the financing contract and personal property certificate, with corresponding paid invoices, are to be submitted no later than the document due date
 - The financing document packet is available on our website; includes NOI, Financing Contract, Certificate of Designated Agency Representatives (if necessary), Personal Property Certificate
- For **real estate** financing leases, OST requires two original, single sided, signed copies of the Site Lease (and Memorandum), Financing Lease (and Memorandum), and Tax Certificate, to be submitted no later than the document due date
 - Documents for Real Estate are prepared by OST and are not available online
 - The due date for Real Estate documents is different than equipment
- A full list of Documents can be seen in Appendix A



Application Process

4. Reimbursement

- The agency must submit the following to be reimbursed:
 - Personal Property Certificate
 - Invoices
 - Proof of Payment
- For **equipment** purchases, property must be acquired prior to the sale
- For **Real Estate** projects, can request reimbursement as funds are spent



Appendix A



Documents

1. Notice of intent
2. Project Overview (Real Estate only)
3. Construction contract/Purchase and sale agreement (Real Estate only)
4. State agency financing lease/contract
5. Memorandum of finance lease (Real Estate only)
6. State agency site lease (Real Estate only)
7. Memorandum of site lease (Real Estate only)
8. State agency tax certificate (Real Estate only)
9. Certificate of designated representative
10. Personal property certificate(s) (Equipment only)
11. Request of release of proceeds (Real Estate only)
12. Invoice(s)/Proof of payment(s)



Appendix B

Rating Action: **Moody's assigns Aa2 to Washington State COPs, Ser. 2019A; outlook stable**

11 Jan 2019

New York, January 11, 2019 -- Moody's Investors Service has assigned a Aa2 rating to the State of Washington's \$53.8 million Certificates of Participation Series 2019A (State and Local Agency Real and Personal Property). Following the issuance of the Series 2019A COPs, the state will have approximately \$913.4 million similarly-secured COPs outstanding, all rated Aa2. The outlook on these ratings is stable.

RATINGS RATIONALE

The Aa2 rating on the COPs, one notch below the Aa1 rating on the state's general obligation bonds, reflects the essential nature of the property being financed, the moderate legal structure and limited subject-to appropriation nature of the state's payment obligations, active administration of the financing program by the state treasurer's office, and the state's established track record of making appropriation-backed payments under a variety of financing programs.

Washington's Aa1 general obligation rating incorporates the state's sound management practices such as its quarterly consensus revenue forecasting process, multi-year revenue and expenditure projections, timely budget adoption, and demonstrated willingness to address budget shortfalls. The rating also reflects an economy that is growing and has out-performed the nation. Revenue trends are positive, supported by employment gains and improvement in the state's housing market, and available reserves have increased. These strengths are tempered by exposure to the cyclical aerospace industry and other export markets, and above-average debt ratios. Frequent voter initiative activity adds budget challenges although the state legislature has a history of responding effectively to maintain budget balance.

RATING OUTLOOK

Washington's rating outlook is stable, reflecting economic gains that are boosting revenues, a strong reserve position, and budget balancing solutions that are largely recurring. We expect that the state will continue to address any budget gaps that emerge, as it has in the past. Economic concentration in some industries that are historically volatile poses a longer-term credit challenge.

FACTORS THAT COULD LEAD TO AN UPGRADE

Improved industry diversification

Reduction of debt ratios to levels closer to Moody's 50-state medians

FACTORS THAT COULD LEAD TO A DOWNGRADE

Economic or employment weakening

Protracted structural budget imbalance and/or increased reliance on one-time budget solutions

Deterioration of the state's cash position

LEGAL SECURITY

The Series 2019A COPs are secured by and expected to be paid from payments made by participating agencies including: (1) lease payments made by participating state agencies for real property projects, and (2) installment purchase payments made by participating state and local agencies for personal property.

Payments made by the state agencies are subject to appropriation by the legislature and executive order reduction by the governor. The state has never failed to make needed appropriations to meet the payment obligations related to its COPs.

Payments made by the local agencies are secured by the full faith and credit of the local agencies, effectively

general obligation, limited tax obligations. In the event any local agency fails to make its scheduled payment, the state treasurer is obligated to make the payment on behalf of the local agency using state funds; such state payments, if necessary, are subject to appropriation by the legislature and executive order reduction by the governor. The treasurer is further obligated to withhold an amount equal to the payment advance from the local agency's share of state aid, to the extent legally permissible. No local agency has ever failed to make a payment obligation related to state-issued COPs.

USE OF PROCEEDS

Proceeds of the Series 2019A COPs will be used to finance and/or refinance the cost of acquisition and construction of real and personal property for various state and local agencies.

PROFILE

Washington is the thirteenth largest state by population, at 7.4 million. Its state gross domestic product is fourteenth largest. The population is relatively wealthy, with per capita personal income equal to 110.8% of the US level and a poverty rate in the bottom third among states.

METHODOLOGY

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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